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C O N F I D E N T I A L SECTION 01 OF 03 SARAJEVO 001722

SIPDIS

DEPARTMENT FOR EUR/SCE
TREASURY FOR LINDQUIST

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TAGS: [ECIN](#) [PGOV](#) [PREL](#) [EU](#) [BK](#)
SUBJECT: ENERGY AGREEMENT MAY MEAN SOMETHING GOOD

REF: A. SARAJEVO 1685
[1](#)B. SARAJEVO 1649
[1](#)C. SARAJEVO 1707
[1](#)D. SARAJEVO 1661

Classified By: DCM JUDITH CEFKIN. REASON 1.4(d)

[1](#)1. (C). Summary: In a surprise move, on November 6, Republika Srpska (RS) Premier Milorad Dodik, Federation Premier Nedžad Branković and Bosnia Council of Ministers Chairman Nikola Spiric signed a comprehensive agreement on energy policy. If the agreement is implemented in good faith, it will resolve many significant outstanding energy disputes that have been festering in some cases for years. The agreement covers trade and distribution of oil and oil derivatives (to include a 10 pfennig tax on gasoline needed to qualify for EBRD funding of four new segments of the Corridor 5C highway), creates a tax on natural gas needed to pay a long-outstanding debt to Russia for pre-war and wartime natural gas, starts coordination on additional natural gas pipelines, calls for taking measures to fix the operational problems in the state electricity transmission company, Elektroprenos (TRANSCO), agrees to prepare a country-wide electrical energy policy, and even covers bio-fuels and implementing the Kyoto Protocol. While the devil will remain in the details, and implementation of especially the promised tax provisions will require legislation, if the three parties do what they have promised, Bosnia's leaders will have made significant progress on some difficult issues that have divided them for a long time. The question also remains why now and what motivated the three signatories - especially Dodik. End Summary.

A surprise agreement

[1](#)2. (SBU) The three parties agreed to establish a "government" role of regulatory pricing of oil derivatives, as well as introduction of an excise tax in the amount of 10 pfennig/liter of petrol to comply with the EBRD condition for a 180 Euro loan for Corridor 5C highway development (Ref A). Although the agreement addresses a role for the government in pricing derivatives, it is unclear which government, entity or state, would take this role. Although both of these conditions were approved by the three Prime Ministers, both will also demand legislative action in entity parliaments. In the realm of issues in the agreement that the Prime Ministers will "agree to consider the possibility" falls the pending issue of settling the pre- and war-time natural gas debt of Bosnia to Russia, including consideration of a USD 5/1000m3 tax for present gas consumption. The PMs also agreed to "consider" coordination of development of the currently-dueling gas pipelines (Ref B), with one proposed for the RS only and the national pipeline thus blocked by RS

officials.

13. (SBU) In the field of electricity, the PMs agreed to "adopt urgent measures" to unblock the now-dysfunctional state electricity transmission company and to reconcile the ongoing legal issues about the ownership of 110 KV lines between TRANSCO and the ethnically-based Elektroprivreda (ref C). Although TRANSCO was given control over all of the 110 KV lines, some energy experts believe that the distribution 110 KV lines should have stayed with the Elektroprivreda, a policy that RS Prime Minister Dodik strongly espouses. The final section of the agreement covers biofuels, and the PMs agree to adopt the necessary legislation in the biofuel arena in accordance with EU legislation, in addition to creating a new institution to monitor and implement the Kyoto protocol.

14. (SBU) Translated text is as follows:

AGREEMENT ON THE ENERGY POLICY PRINCIPLES

I

Under this Agreement the Parties signatories express their intent to accept the energy policy principles aimed at energy independence and harmonized energy reliability of the Federation of Bosnia and Herzegovina and the Republika Srpska entities, i.e. Bosnia and Herzegovina.

SARAJEVO 00001722 002 OF 003

II

This Agreement shall define the energy policy principles in the following areas:

trade and distribution of crude oil and crude oil derivatives;
trade and distribution of gas;
production, transmission and distribution of electric power;
and
ecologically clean energy sources and biodiesel.

III

In the areas of trade and distribution of crude oil and crude oil derivatives, the parties have agreed to:

the introduction of regulation of prices of derivatives on the principle of maximization of unit prices by type of derivatives;
the introduction of an excise tax of 10 pfennings for purposes of development and functioning of the network of highways and express ways and assignment of collected payments to the accounts of the entities';
the creation of conditions for activation of production of crude oil and crude oil derivatives in the domestic refinery facilities, with the aim of reducing the foreign trade deficit; and
the introduction of also other rules and standards for this area in accordance with the EU regulations.

IV

In the areas of trade and distribution of natural gas, the parties have agreed that the following possibilities should be considered:

the introduction of a fee of US\$ 5/1000 cubic meters of gas for purposes of settlement of Bosnia and Herzegovina's debt to Gazprom for the delivered natural gas, for the period

of 1991-1995, which shall be regulated by a separate agreement;
the allocation of liabilities according to the war debt, within the period of no later than three (3) months;
the examination of the possibility that one part of monthly invoices for the procured gas are paid by virtue of barter arrangements made with the Russian supplier;
the coordination of development of a gas network and liquid gas terminals; and
the Federation and the Republika Srpska governments, i.e. the Council of Ministers of Bosnia and Herzegovina, shall harmonize and enact the Law on Gas of Bosnia and Herzegovina, as part of the BiH European Partnership requirements.

V

In the area of generation and transmission of electricity, the parties have agreed to:

the urgent measures and activities for the smooth operation of the Elektroprenos BiH;
the raising of an initiative for harmonization of the laws and statutes of companies as well as the further treatment at the 110 kV voltage level;
the continuation of talks on the preparation for construction of shared structures for generation of electric energy and the defining of the principles for drafting the BiH Energy Strategy following the drafting of the entities, strategies; and
the adoption of new standards pursuant to the EU rules and directives.

VI

In the area of creating the conditions for trade and distribution of the ecologically clean energy sources and biodiesel, the parties agree to:

the enactment of necessary legislation, pursuant to EU legislation, for use of the biodiesel;
the establishment of the necessary institutions for monitoring and implementation of the Kyoto Protocol provisions, in accordance with law, and the adoption of new standards pursuant to the EU rules and directives; and

SARAJEVO 00001722 003 OF 003

the adoption of new standards pursuant to the EU rules and directives.

VII

The parties agree on the full acceptance and implementation of these principles, both in the entities, legislation and in the necessary legislation of the State Institutions.

15. (C) Comment: This agreement may be a meaningful step forward for Bosnia and a remarkable coming together of three senior Bosnian leaders or it may not. It is clearly an outline and in many respects an agreement to agree and to work together. Regarding the thorny TRANSCO dispute (Ref C), for example, the agreement language that "the parties have agreed to the urgent measures and activities for the smooth operation of the (TRANSCO)" could mean many things if and when implemented. The outcome could be a continuation of the ongoing dispute with Dodik demanding his conditions that would revert TRANSCO into an entity-based operation, which would be highly problematic for our (and EU) interests, or it could result in a good faith joint effort to actually resolve TRANSCO's management problems and maintain the state structure. Also possible is that Brankovic may have

surrendered the TRANSCO issue in return for gains in another area such as resolving the natural gas pipeline standoff (Ref B) or the EBRD required gasoline tax. Time will tell as (and if) the agreement is implemented. Also still in question is what motivated the three parties - especially Dodik. The agreement could settle several disputes in which Dodik has been the blocking party. It is possible that he wanted to make a gesture in advance of the Peace Implementation Council on November 19 in support of his vocal position that the International Community is not needed any longer in Bosnia and that Bosnians can make progress without the Office of the High Representative, etc. Nonetheless, the energy agreement is remarkable just for the fact that it happened at all. End Comment.

ENGLISH